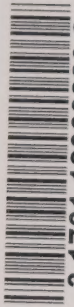


CA20N
IT31
-1993
S43



3 1761 12060889 8

**SMALL BUSINESS DEVELOPMENT
REPORT NO. 43
NEW SMALL BUSINESSES**

JULY 1991

Prepared by Lawrence Chamberlain

**Small Business Branch
Small Business Development
Ministry of Industry, Trade and Technology**

CA20N
IT31
-1993
S43

**SMALL BUSINESS DEVELOPMENT
REPORT NO. 43
NEW SMALL BUSINESSES**

JULY 1991

Prepared by Lawrence Chamberlain

**Small Business Branch
Small Business Development
Ministry of Industry, Trade and Technology**



Enquiries regarding this publication
should be directed to:


Ministry of Industry, Trade and Technology
Small Business Branch
Small Business Development
Hearst Block, Queen's Park
Toronto, Ontario M7A 2E1
(416)325-6496

The assistance of the following individuals
in the preparation of this report is
gratefully acknowledged:

George More, Manager of Small Business Development

Rena Blatt, Research Advisor, Small Business Ontario

Guy Larocque, Consultant, Small Business Development



Digitized by the Internet Archive
in 2024 with funding from
University of Toronto

<https://archive.org/details/31761120608898>

INTRODUCTION

In January, 1990 the Small Business Branch of the Ontario Ministry of Industry, Trade and Technology conducted its fourth survey of new unincorporated business registrations. The research was undertaken in order to provide government policy makers with some basic data about Ontario entrepreneurs and the businesses they start. (Throughout this report, the term "entrepreneur" will describe those persons starting their own business). This is the first survey in this series in four years. As little change in the data seemed to occur from year to year when the survey was done annually from 1984 to 1986, the decision was made to conduct the survey on a less frequent basis.

Some changes were made in the 1990 survey in order to obtain a more comprehensive view of new entrepreneurs and their businesses. First, the number of categories under "type of business" was expanded from five to nine, the additional sector classifications being primary, transportation and communications, financial and real estate, community service, personal and business service, and non-classifiable. The number of categories to describe the new entrepreneur's current employment status was also increased from three to six to include the possibility of the respondent being self-employed, in school or retired. Furthermore, the number of age groups was increased from four to five and the categories were changed to under 24, 25 to 34, 35 to 44, 45 to 54 and 55 to 64.

Other additions were made in order to gain insight into the cultural background of the new entrepreneurs. These included questions about the respondent's birthplace, first language and number of years living in Canada (for those who were born abroad). In addition, the interviewer was required to classify the individual by whether or not he/she was a member of a visible minority.

Another change involved the definition of the term "young entrepreneur". In the 1986 survey, "young" describes those respondents under the age of 30. In the 1990 survey, young entrepreneurs are those under the age of 24. The change was made to coincide with the new age categories. When comparing the results for young entrepreneurs between the two surveys, this difference must be considered since the proportion of all new entrepreneurs that are young drops from 41 percent in 1986 to 16 percent in 1990, the decline being due primarily to the change in definition.

METHODOLOGY

The first step in legally establishing a business in Ontario is to register it with the Ministry of Consumer and Commercial Relations (MCCR). Thus, during the period January 12 to January 25, 1990, interviewers from the Ministry of Industry, Trade and Technology interviewed 965 individuals who were registering new businesses at the Registration's Office of the MCCR, located on the second floor of 393 University Avenue, Toronto. Interviewers approached registrants while they were waiting either in the business registration line-up or for their papers to be processed and asked them if they would like to participate in the survey. Those willing to respond were then asked a series of questions. The interviewer recorded the answers while at the same time another person entered the responses (in coded form) into a portable computer.

Since all the individuals approached in line would not necessarily be there to register businesses, it was necessary to begin the interviews with a qualifying question in order to determine whether or not the individual was there to register a business and was the principal of the company. A business may be started as a proprietorship, a partnership or through incorporation. The respondents to this survey were all registering businesses as either proprietorships or partnerships. No attempt was made to interview individuals registering incorporated businesses since it is rarely the case that the principal of the company will come into the office.

Of 965 surveys, 19 were discarded because they were incomplete. Thus the working sample consisted of 946 completed interviews.

The entire survey process was supervised by Guy Larocque of the Small Business Branch of the Ministry of Industry, Trade and Technology.

RESULTS

As in previous years the data were examined both as a whole and as three subgroups in order to focus on specific cross-sections of the new entrepreneur population. The three subgroups are female entrepreneurs, young entrepreneurs (those under the age of 24) and those entrepreneurs who intend to hire employees from the outset (owner-operators).

There was a slight decrease in the proportion of new female entrepreneurs in the 1990 survey. Only 23 percent of new entrepreneurs in 1990 were women compared to 26 percent in 1986. For owner-operators, the percentage of female entrepreneurs drops to 18 percent. The figure declines even further to 16 percent for young entrepreneurs.

PROFILE: The Female Entrepreneur

The female entrepreneur is the sole owner of a personal or business service which she will operate out of her home. She will not be hiring any employees in the beginning. Her initial investment in the business is \$13 000 which she will obtain from her personal savings. In the first year of business she expects annual sales/billings to be \$50 000. In five years she expects this number to rise to \$475 000. The reason she went into business was to be her own boss. She also found entrepreneurship attractive for the money. The female entrepreneur is 34 years old with a university education. It is her first time owning a business of any kind. She has however been employed in this type of business before. As for her cultural background, she was born in Canada and English is her first language. The female entrepreneur is Caucasian.

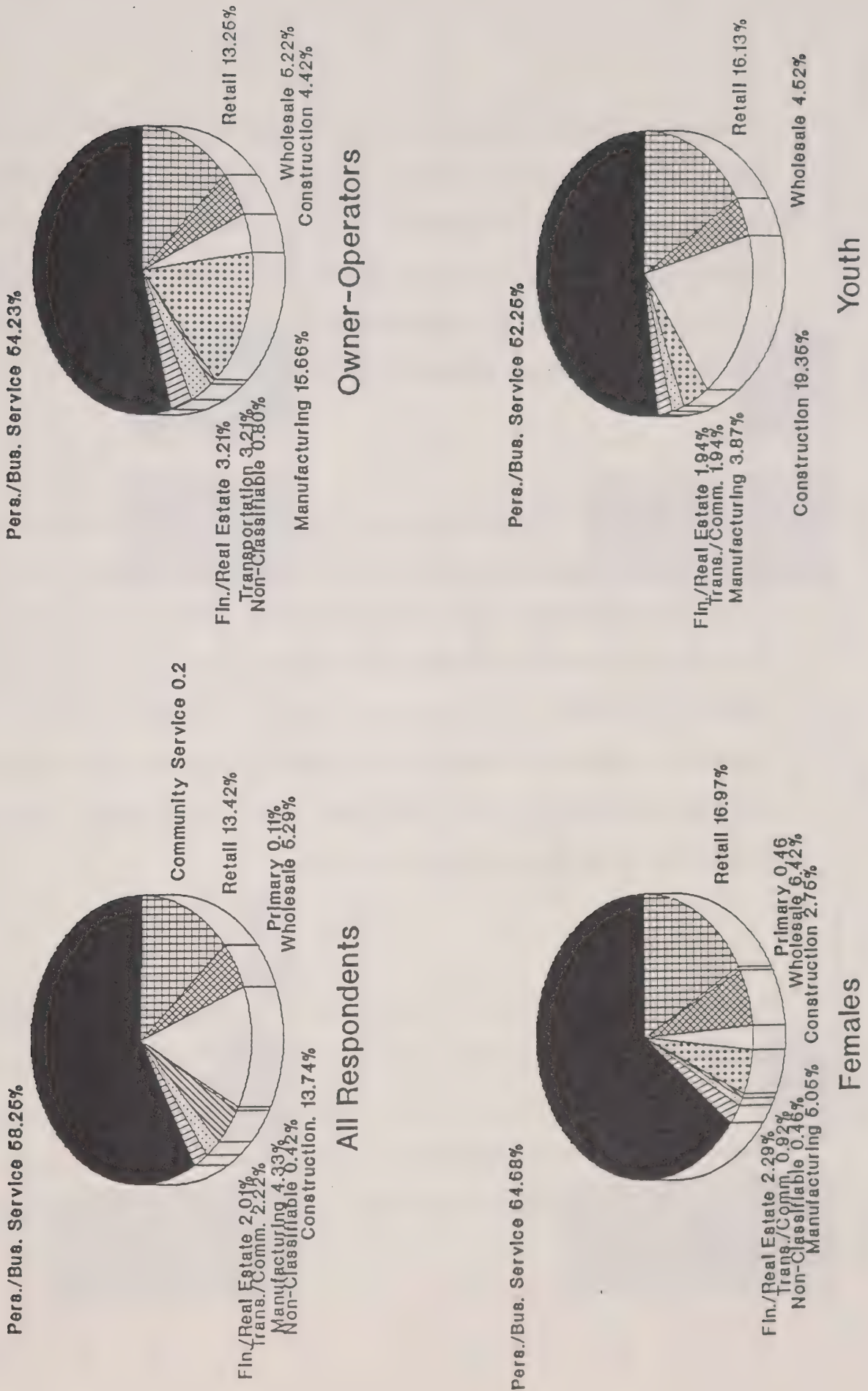
The largest age group is the 25 to 34 year old group representing 43 percent of new entrepreneurs. The second largest age group is the 35 to 44 year old group which comprises 28 percent of the sample. Sixteen percent of new entrepreneurs are under 24 years of age. Only nine percent are between 45 and 54 years old and three percent are between 55 and 64 years old. Of the entire sample, a mere four respondents were over the age of 64. The age breakdown is similar for owner-operators. However, only 12 percent of female entrepreneurs are under the age of 24 while 33 percent are in the 35 to 44 age category. The average age for all respondents is 34 as it is for females and for owner operators.

PROFILE: The Young Entrepreneur

The young entrepreneur is male, Caucasian, and speaks English. He was born in Canada and is a university graduate. He is starting his own business to be his own boss. However, money also lured him into entrepreneurship. He is the sole owner of a firm in the personal and business service sector which he will operate out of his home, initially without any employees. His initial investment of \$12 000 will come from his personal savings. He expects annual sales/billings to be \$50 000 in the first year and \$500 000 in five years.

Most new businesses, almost 60 percent, are personal and business services. For females, the number jumps to 65 percent. The second most common type of business opened by new entrepreneurs are construction and retail businesses, both at about 13 percent. Interestingly, construction businesses are started by 20 percent of young entrepreneurs and only three percent of female entrepreneurs. See Figure 1 for a complete breakdown of all the groups by sector. It is difficult to make an accurate comparison of these figures to the 1986 results since the categories have changed drastically. Little inter-group variation is evident if the sectors are broken down by education level (university, college, trade school/apprenticeship, grade 13, grade 11 or 12 and grade 10 or less).

FIGURE 1: TYPE OF BUSINESS

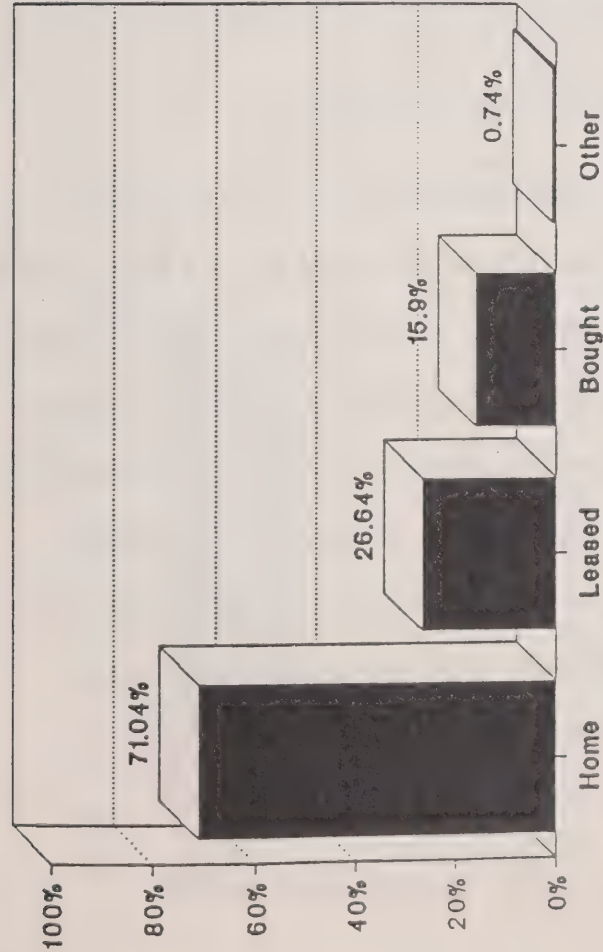


As noted above, all respondents were either starting a business as the sole owner or as a partner since incorporated business starts were not included in the survey. The results showed that for the entire sample, three-quarters of new businesses were headed by a sole proprietor. For the under 25 subgroup, this number drops to 60 percent. However, for the female subgroup, it rises slightly to 77 percent. Seventy-one percent of new businesses started by owner-operators were sole ownerships. These figures have not changed significantly from the 1986 survey.

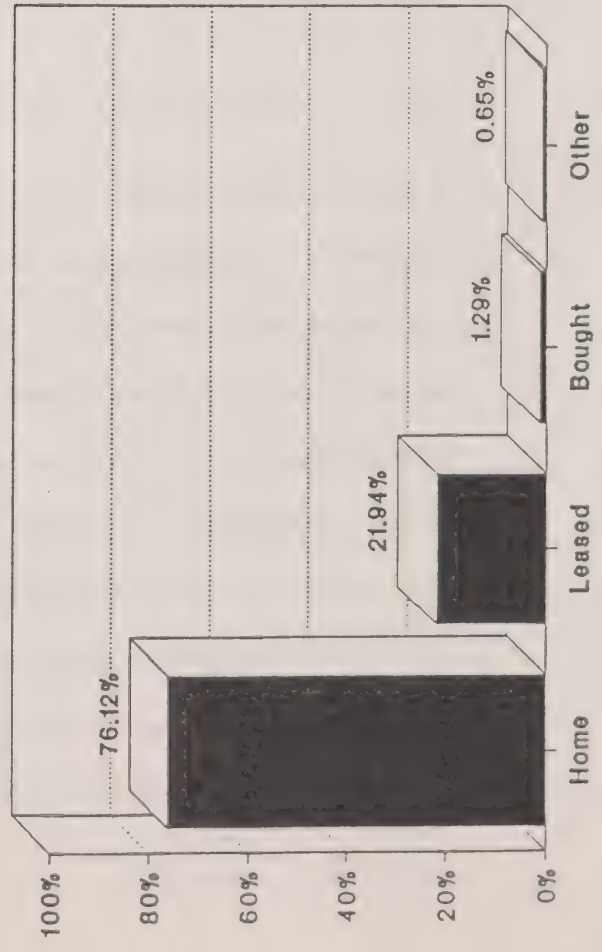
When asked about from where they planned to operate their new business, the majority of the new entrepreneurs, over 70 percent, said they planned to operate their new business out of a part of their home. Twenty-five percent of new businesses would conduct activities out of space leased especially for the business. However, if the business will be immediately hiring employees, almost one half will operate out of leased space. These numbers are unchanged from the 1986 survey results with the exception of the proportion of owner-operators working out of their homes being down about 8 percent and that operating out of leased space being up about 11 percent. Figure 2 shows from where the respondents in each group would operate their business.

Owner-operators are defined to be those entrepreneurs who are planning to hire employees. They represent only 26 percent of the sample, down from 35 percent in 1986. This figure is consistent for female and young entrepreneurs. Of the owner-operators, the average number of employees they plan to hire is three. In 1986, the average number of employees that the new entrepreneur planned to hire immediately was four. The total number of people to be employed initially by all respondents in the 1990 survey is 870.

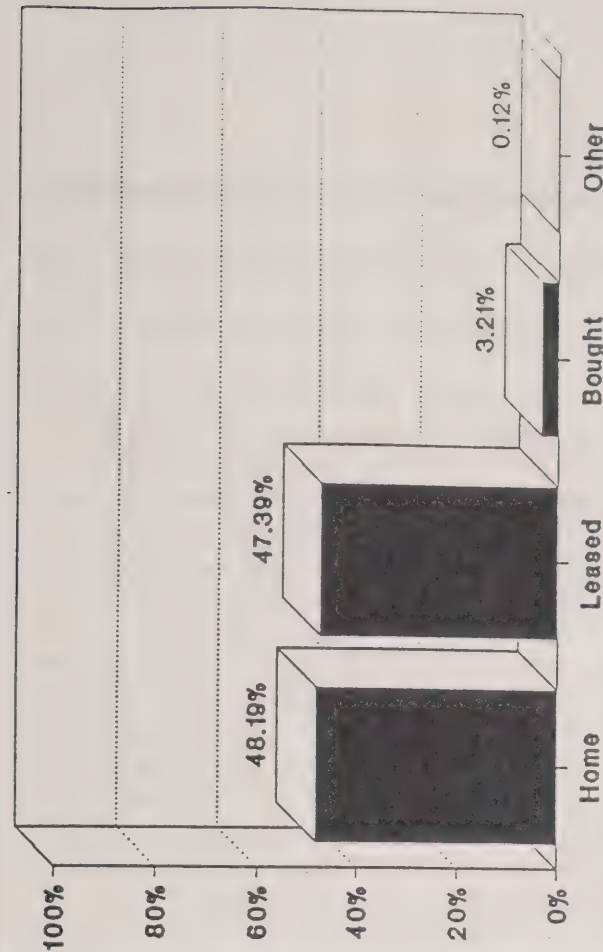
FIGURE 2: PLACE OF OPERATION



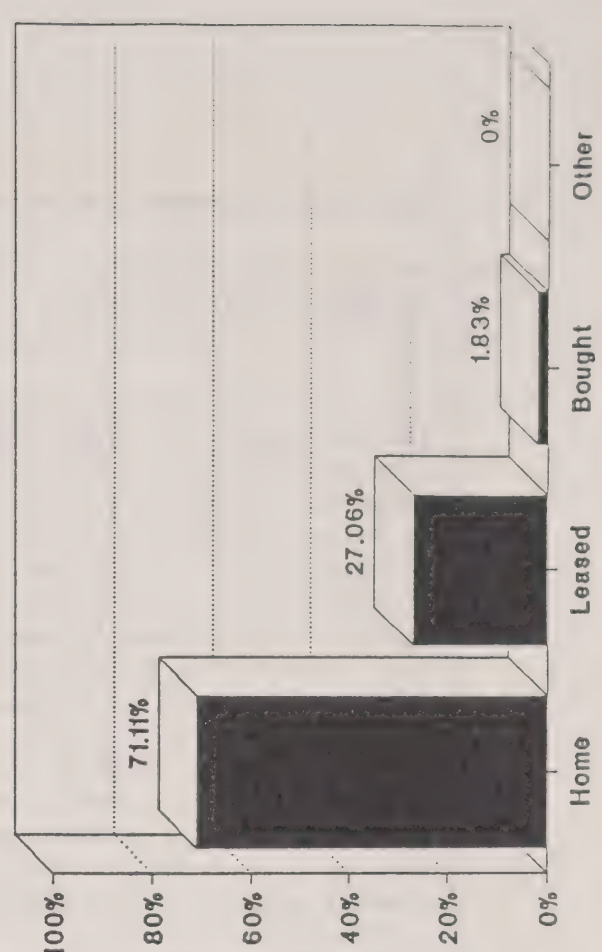
All Respondents



Youth



Owner-Operators



Females

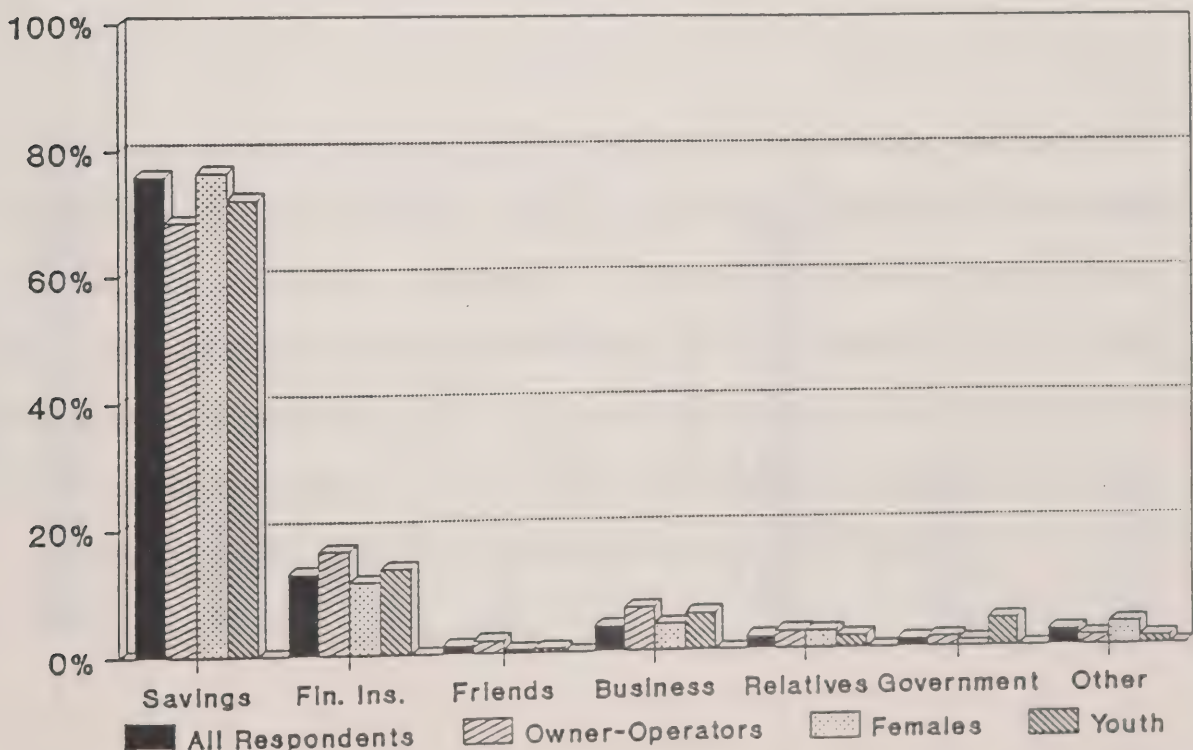
PROFILE: The Owner-Operator

The owner-operator is a 34 year-old English-speaking male. He was born in Canada and is Caucasian. He is starting a personal or business service of which he is the sole owner. He will operate the business out of his home or leased space and will initially hire three employees. He is going into business because he wants to be his own boss but money is another reason. A university graduate, the owner-operator has previous experience working in this type of business although he has never owned this type of business before. He has, however, owned some other type of business. He is initially investing \$25 000 in his venture which he expects will lead to annual sales/billings of almost \$100 000 in the first year and over \$750,000 in five years.

As indicated by the 1986 survey, the most common reason that individuals go into business for themselves is to be their own boss. Thirty-three percent of those interviewed gave this as the primary factor behind their business venture. One-quarter of the respondents cited money as the dominating influence in starting their own business. For young entrepreneurs, money is slightly more important while for females it is less important than to all respondents taken as a whole. Previous experience in the type of business that they were starting was the reason given by 13 percent of the respondents. Eight percent started their businesses because they saw a need for a product or service. Other reasons that the respondents gave for starting their own businesses included economic necessity, always wanting to go into business, tax position and believing it to be the right time to go into business.

An interesting shift occurred between 1986 and 1990 in the manner in which new entrepreneurs financed the initial investment in their business. In 1990, the survey indicated that over 75 percent of new businesses were financed through the new entrepreneur's personal savings, up from 67 percent in 1986. Only 12.9 percent of new businesses were financed through financial institutions compared to 17 percent in 1986. Similar changes occurred in the subgroups as well. The shift in the financing of new businesses from financial institutions to personal savings could be attributable to an increase in the unwillingness of banks to lend money to new businesses. The difference in the cost of borrowing between the two years should also be noted. The prime lending rate was 11.25 percent in April of 1986 compared to 13.50 percent in January of 1990. Four percent of respondents planned to get their investment right from the business itself. Almost five percent of young entrepreneurs financed their investment through government assistance compared to one percent of females and owner-operators. Other sources of investment funds included friends and relatives. See Figure 3 for the manner in which new entrepreneurs finance their investment.

FIGURE 3: SOURCE OF INVESTMENT

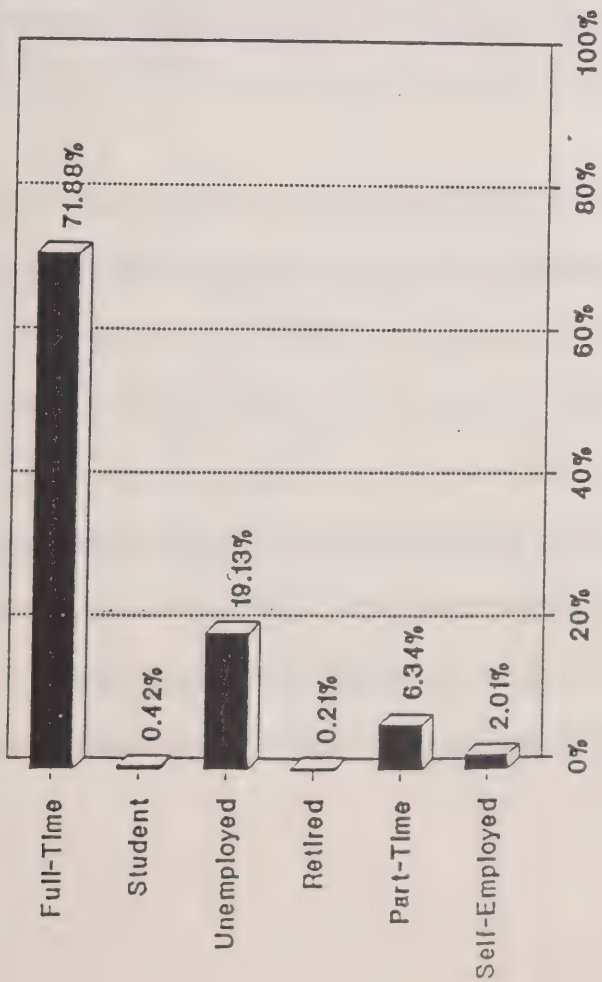


Consistent with earlier surveys is the fact that the unemployment rate for new entrepreneurs is much higher than that for the general population. In January, 1990, Ontario's unemployment rate was 5.6 percent while that of new entrepreneurs in Ontario was 20 percent. The unemployment rates for the subgroups were similarly higher than that of the general population. These figures support the hypothesis that entrepreneurship may be viewed as an alternative to employment. However, for many it is also seen as an alternative source of income. Over 70 percent of new entrepreneurs were already employed when starting their new business. This proportion drops to about 60 percent for the young and for females. The proportion of those employed part-time was the same for the youth and the female subgroups at 12 percent. This compares to six percent of all respondents and four percent of owner-operators who were employed part-time. Two percent of those interviewed said that they were currently self-employed. Only 0.4 percent of interviewees were students. However this figure may be higher in the spring and summer months. This survey was conducted in January when most students would be enrolled in classes. An even smaller number of respondents, 0.2 percent, were retired. See Figure 4 for a complete breakdown of all the groups by employment status.

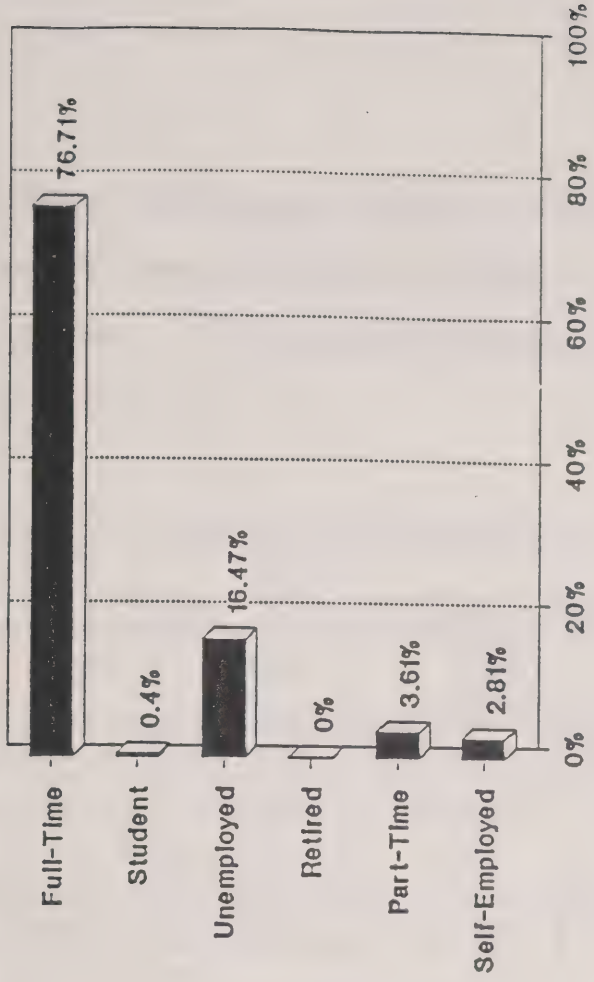
With respect to the education of the interviewees, the survey shows that individuals approach entrepreneurship with varying levels of education. For all respondents, 28 percent are university graduates while 26 percent have only a grade 11 or 12 education. Twenty-one percent have attended college, ten percent have a grade 13 level of education and another 10 percent have completed only grade 10 or less. It is interesting that owner-operators have both the highest proportion of university graduates and those with an education of only grade 10 or less. For every group, less than five percent of the respondents indicated that they had gone to trade school or had been an apprentice.

FIGURE 4: EMPLOYMENT STATUS

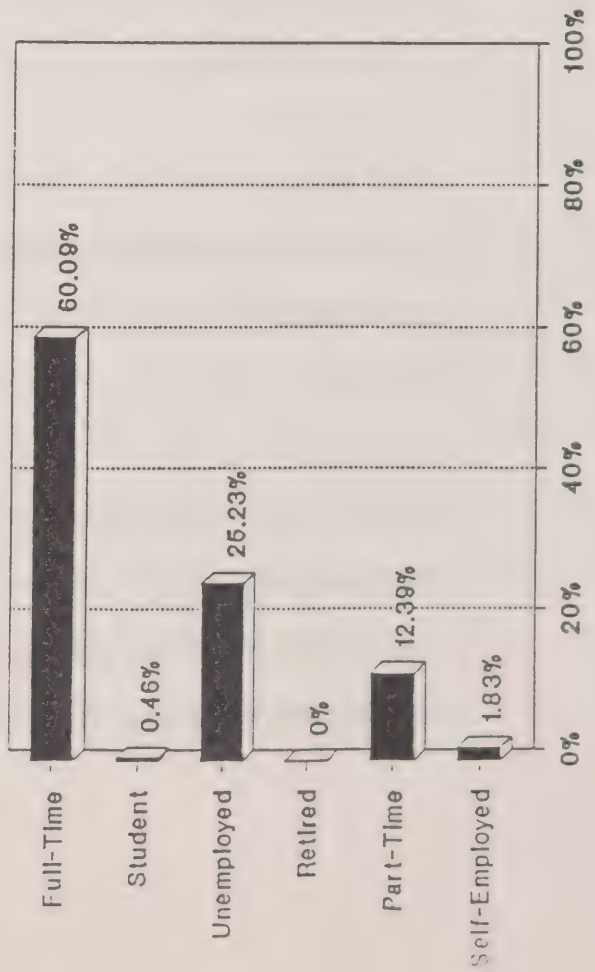
All Respondents



Owner-Operators



Females



Youth

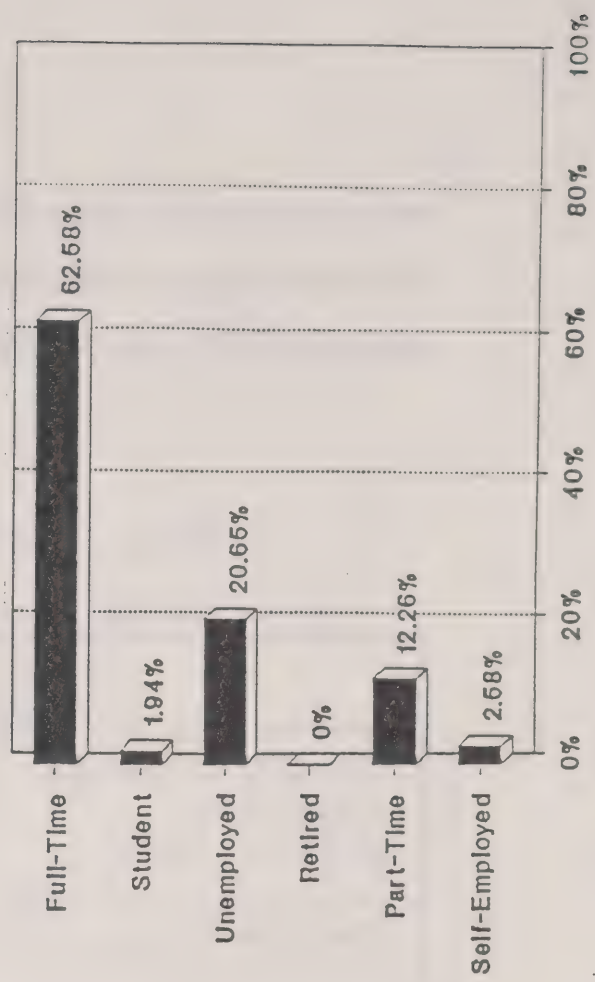


Table 1 summarizes the average investment made in new business and expected annual sales/billings. Owner-operators averaged significantly higher values for average investment, estimated sales and billings in the first year and estimated sales and billings after five years.

TABLE 1: INVESTMENT AND EXPECTED SALES/BILLINGS

	All Respondents	Owner-Operators	Females	Youth
Average Investment (\$)	13 853.00	24 857.55	12 555.35	11 830.80
Estimated Annual Sales/Billings in First Year (\$)	63 967.77	92 582.40	49 625.70	59 591.10
Estimated Annual Sales/Billings in Five Years (\$)	580 950.75	769 900.75	476 715.75	499 633.70

Of all the respondents, almost 10 percent said that they had no idea of what to expect sales/billings to be in the first year of operation and over 17 percent had no idea of what to expect sales/billings to be in five years.

Table 2 shows the proportion of new entrepreneurs that have had previous ownership or employment experience in the type of business that they are starting. Out of the four groups, the owner-operators gave the highest number of affirmative responses to each of the three questions posed. They therefore have the most experience in both previous employment in this type of business and previous

ownership. The female and young entrepreneurs have less experience in employment and previous ownership. None of these figures changed significantly from the 1986 results with the exception of owner-operators who have previously owned any type of business which drops from 71 percent in 1986 to 53 percent in 1990.

TABLE 2: PREVIOUS EMPLOYMENT AND OWNERSHIP EXPERIENCE

	All Respondents	Owner-Operators	Females	Youth
Previous Employment in This Type of Business	68.08	77.51	61.47	65.16
Previous Ownership of This Type of Business	19.45	26.51	11.47	11.61
Previous Ownership of Any Type of Business	40.17	53.01	30.73	27.74

In 1990, the survey of business starts was extended to include questions about the entrepreneur's cultural background. These included questions concerning the respondent's birthplace, first language and the number of years living in Canada (for those born abroad). In addition, the interviewer was asked to classify the interviewee as to whether or not the interviewee belonged to a visible minority. The responses indicate that 57 percent of the new entrepreneurs were born in Canada. Fourteen percent were born in Asia and 12 percent being born in Western Europe. The remaining 17 percent were divided among the Caribbean, Africa, Eastern Europe, Latin America, Africa and the United States. For those interviewed who were under the age of 24, almost 75 percent were born in Canada.

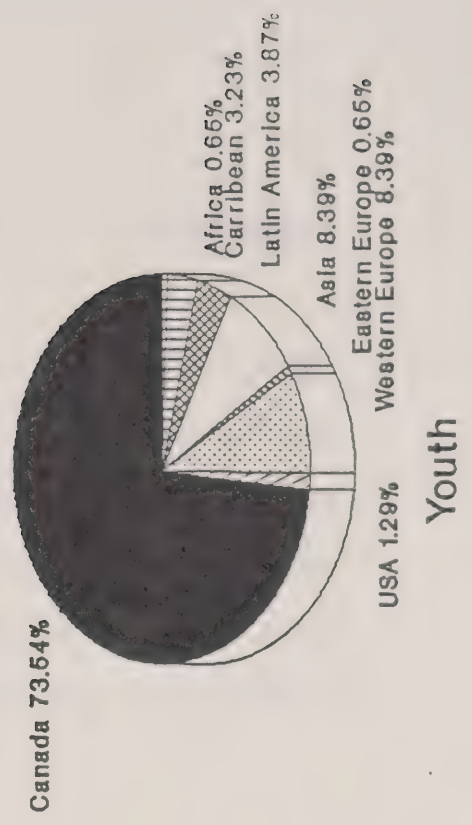
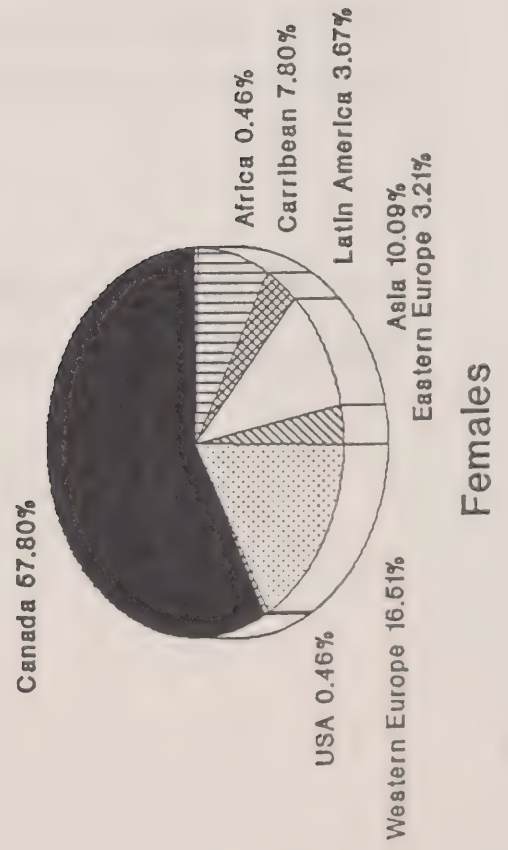
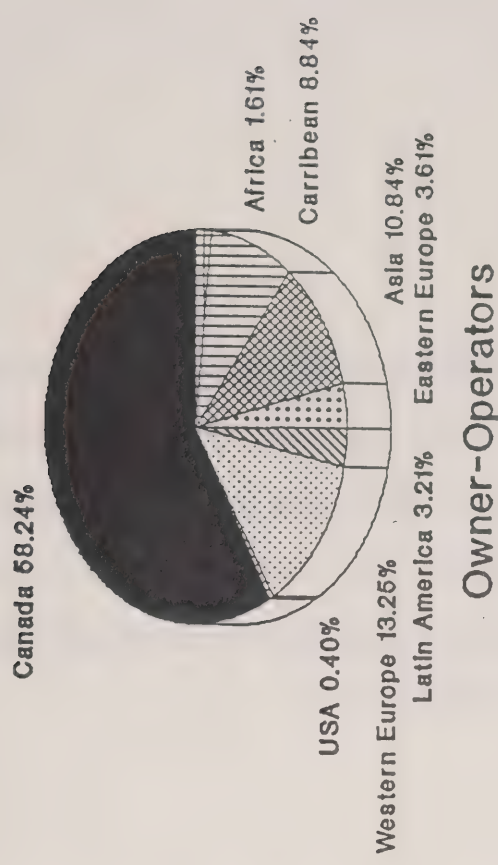
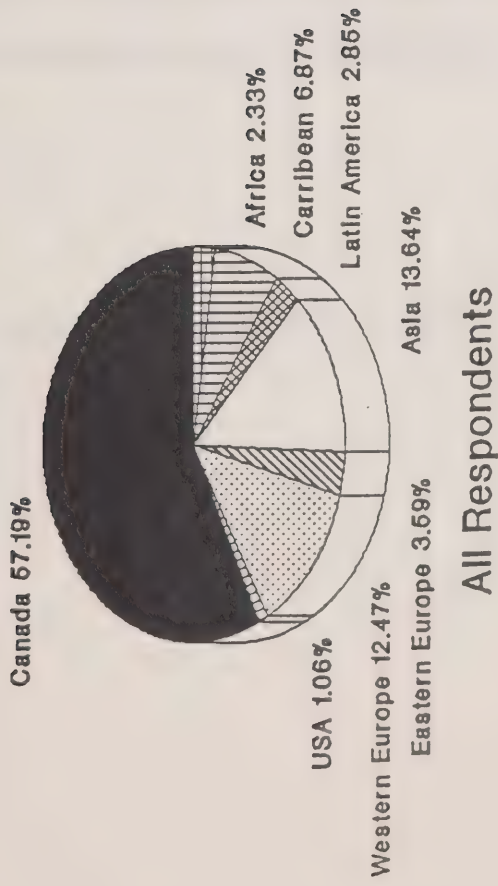
A relatively high proportion of female respondents, 17 percent, were born in Western Europe, although the Canadian-born figure for women is identical to that of all respondents. Figure 5 shows the complete distribution by birthplace for each group.

For the 43 percent of new entrepreneurs born outside Canada, over one quarter have been in Canada five years or less. Only 15 percent have been in Canada between six and ten years, 15 percent between ten and 15 years and 21 percent between 16 and 20 years. The average is 13.2 years.

The interviewers themselves were asked to classify the respondents by race. Seventy-eight percent of the respondents were Caucasian. This figure increases to 87 percent for the youth subgroup, although it remains consistent for the female and owner-operator subgroups. The remaining respondents were divided fairly equally among Asians, East Indians and Blacks. Figure 6 divides the respondents by visible minority.

English is the first language of 73 percent of new entrepreneurs. Two percent speak French and 25 percent speak other languages.

FIGURE 5: PLACE OF BIRTH



CONCLUSIONS

Although it has been four years since the last survey of new entrepreneurs and their businesses, the results have not changed significantly from the 1986 survey. Indeed, the profile of the new entrepreneur is almost a duplicate of that of the past. There are, however, several results in the 1990 survey that do stand in contrast to findings in the past. Perhaps the most important is the increase in the proportion of new entrepreneurs financing their business venture through personal savings and the drop in the number using the financial aid of lending institutions.

The second outstanding result is the ten percent decrease in the number of owner-operators from 1986 to 1990. This figure is important since if the new entrepreneur is an owner-operator, they are creating jobs for others besides themselves. This, combined with a parallel decrease in the average number of employees hired per owner-operator means that fewer jobs were created by the respondents of this survey as opposed to that of 1986.

This survey can be used on its own or in conjunction with past surveys to get a view over time of the changing face of the new entrepreneur in Ontario.

